

# The EURASIA CENTER

## Macedonia: Economic Overview

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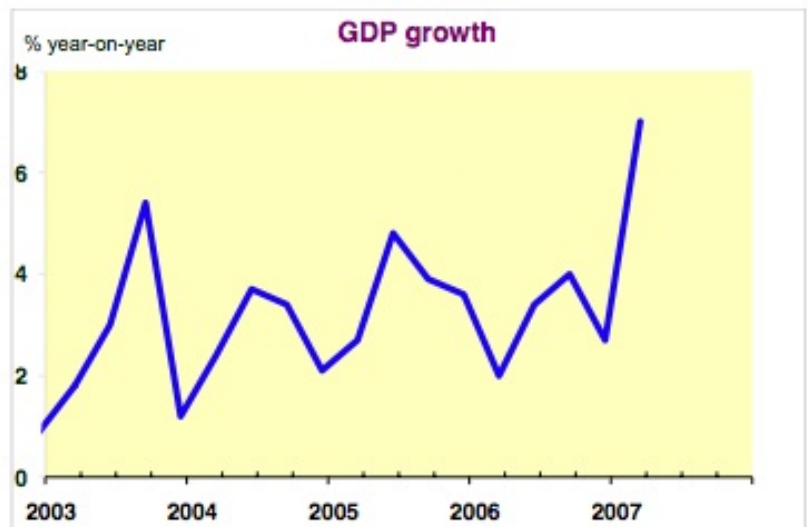


### *Path to EU Accession:*

The Republic of Macedonia gained its independence from Yugoslavia in 1991, and has been involved in a dispute over its name with Greece since then. Greece, the EU, and the UN formally refer to Macedonia as the “Former Yugoslav Republic of Macedonia.” Greece lifted a 20-month trade embargo on Macedonia over the naming dispute in 2005. Macedonia dealt with an insurgency by the ethnic Albanian population in 2001, which reversed a significant deal of economic growth made since independence. Macedonia was granted formal EU candidate status by the European Commission in 2005, and formal accession negotiations are to begin after Macedonia has made significant reform progress in combating corruption, meeting Copenhagen political criteria and Stabilization and Association Agreement requirements.<sup>1</sup>

### *Economic Indicators:*

- Macedonia has a gross domestic product (official exchange rate) of about \$6.2 billion and a GDP (PPP) of \$16.94 billion.<sup>2</sup>
- However, Macedonia has a large informal sector, a “grey market” which is not factored into GDP. It is estimated to be worth over 20% of the recorded GDP.<sup>3</sup>



<sup>1</sup> US State Department “Background Note: Macedonia”

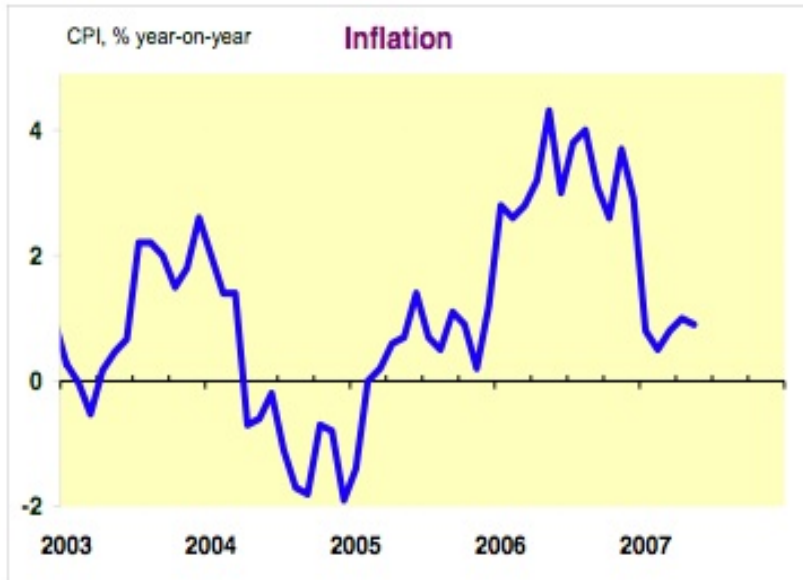
<http://www.state.gov/r/pa/ei/bgn/26759.htm>

<sup>2</sup> CIA World Factbook “Macedonia” <https://www.cia.gov/library/publications/the-world-factbook/geos/mk.html>

<sup>3</sup> Ibid. Graphic of GDP Growth: The European Commission: “Candidate and Pre-Accession Countries’ Economies Quarterly- Second Quarter 2007”

[http://ec.europa.eu/economy\\_finance/indicators/cceq/2007/cceq0207en.pdf](http://ec.europa.eu/economy_finance/indicators/cceq/2007/cceq0207en.pdf)

- The country is highly dependent on trade, with a total trade-to-GDP ratio of 99.2%.<sup>4</sup>
- After independence in 1991, Macedonia's economic growth was hindered by the loss of Yugoslavian transfer payments, absence of infrastructure, UN sanctions on downsized Yugoslavia, and a Greek economic embargo over the naming dispute. After that, there was significant growth and economic reform until it was interrupted by the ethnic Albanian insurgency of 2001. The insurgency caused the



economy to shrink 4.5% due to a decrease in trade, deficit spending on security, and uncertain investment climate.<sup>5</sup>

- Current growth rate (2006 est.) is at 3.1%<sup>6</sup>
- Inflation is at 3%.<sup>7</sup>
- Unemployment Rate: 36%<sup>8</sup>
- Job growth and foreign investment are slow.<sup>9</sup>

### *Economic Structure:*

- The main sectors in the Macedonian economy have been agriculture and industry, with the service sector recently increasing.<sup>10</sup>
- Macedonia's exports total \$2.34 billion and include food, beverages, tobacco, textiles, miscellaneous manufactures, iron, and steel.

<sup>4</sup> US State Department "Background Note: Macedonia"

<http://www.state.gov/r/pa/ei/bgn/26759.htm>

<sup>5</sup> CIA World Factbook "Macedonia"- <https://www.cia.gov/library/publications/the-world-factbook/geos/mk.html>

<sup>6</sup> Ibid

<sup>7</sup> Ibid. Graphic of GDP Growth: The European Commission: "Candidate and Pre-Accession Countries' Economies Quarterly- Second Quarter 2007"

[http://ec.europa.eu/economy\\_finance/indicators/cceq/2007/cceq0207en.pdf](http://ec.europa.eu/economy_finance/indicators/cceq/2007/cceq0207en.pdf)

<sup>8</sup> Ibid

<sup>9</sup> Ibid

<sup>10</sup> Ibid

Macedonia's imports total \$3.631 billion and include machinery and equipment, automobiles, chemicals, fuels, and food products.<sup>11</sup>

- Its main trading partners include Serbia, Montenegro, Germany, and Greece.<sup>12</sup>
- Macedonia became a member of the World Trade Organization in 2003.<sup>13</sup>
- It has free trade agreements with Ukraine, Turkey, and the European Free Trade Association countries. Macedonia is also a member in the Central European Free Trade Agreement (CEFTA), along with Albania, Bosnia and Herzegovina, Croatia, Serbia, Montenegro, UN Mission in Kosovo, and Moldova.<sup>14</sup>
- Real growth rate is expected to reach 6% annually, with inflation of up to 3.2% in 2007.<sup>15</sup>
- Living standards are still somewhat behind pre-independence living standards.<sup>16</sup>

### *Political Considerations:*

- The government of the Republic of Macedonia is a Parliamentary democracy, independent since 1991 from Yugoslavia. The Prime Minister is the head of government and is selected by the party that gains the majority of parliament seats. The President is head of state, and is elected by a general, direct ballot for 5-year terms. Parliament is comprised of the 120 seat unicameral assembly Sobranie, whose members are elected by popular vote from party lists for four-year mandates. The court system includes a Supreme Court, Constitutional Court, and local and appeals courts.<sup>17</sup>
- The EU recognized Macedonia's political progress by granting it candidate status. However, the EU is recommending further reform to fight corruption and improve efficiency, especially in the police and judiciary branches.<sup>18</sup>

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<sup>11</sup> Ibid

<sup>12</sup> Ibid

<sup>13</sup> US State Department "Background Note: Macedonia"

<http://www.state.gov/r/pa/ei/bgn/26759.htm>

<sup>14</sup> Ibid

<sup>15</sup> Ibid

<sup>16</sup> Ibid

<sup>17</sup> Ibid

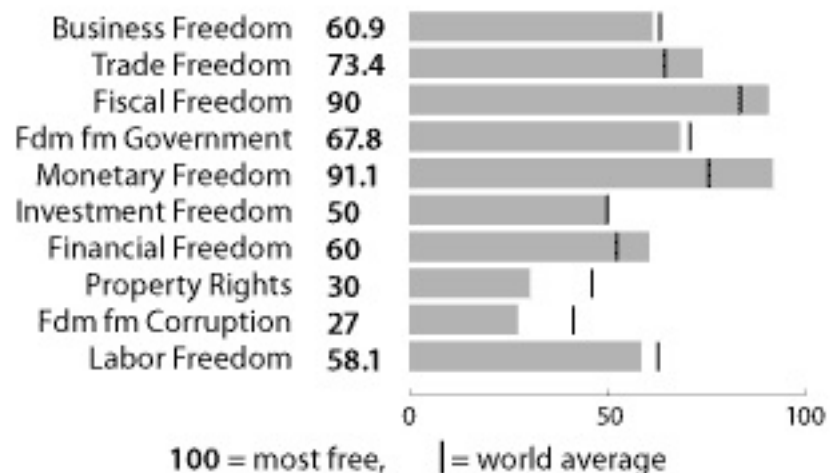
<sup>18</sup> BBC News "Country Profiles: Former Yugoslav Republic of Macedonia"

[http://news.bbc.co.uk/1/hi/world/europe/country\\_profiles/1067125.stm](http://news.bbc.co.uk/1/hi/world/europe/country_profiles/1067125.stm)

### Attractions:

- **Favorable Investment Climate** Macedonia has a favorable investment climate with some of the lowest taxes in Europe and increasing foreign investment. Although small, the economy is open, and Macedonia has a number of free trade agreements with EU, EFTA, and CEFTA member states, as well as a number of bilateral agreements. The country also has a young and competitive workforce.<sup>19</sup>
- **Pro-Investment Government:** The Government is committed to increasing foreign investment and is offering competitive incentives as well as working on liberalization of key markets, including the telecommunications market.
- **EU Candidacy and NATO Candidacy Status:** Official EU candidate status results in greater political and economic stability, as well as efforts for economic and political reform to meet EU standards. Negotiations for NATO integration also add to the increasing assurance of internal political stability.

### MACEDONIA'S TEN ECONOMIC FREEDOMS



### Trouble Spots:

- **Corruption and Property Rights Protection:** Although the Heritage Foundation ranks Macedonia as having a high degree of fiscal and monetary freedom, it was ranked with a low degree of freedom from corruption, at only 27% and a low degree of protection of property rights, at 30%. The last two figures are partially a result of Macedonia's need for reform in its judiciary, and until so, they will continue to impede economic development.<sup>20</sup>

<sup>19</sup> Government of the Republic of Macedonia "International Business Forum: Why invest in Macedonia" Skopje, Sept. 17. 2007. <http://www.vlada.mk/english/News/September2007/ei17-9-2007a.htm>. Graphic: The Heritage Foundation: Index of Economic Freedom 2007 "Macedonia" <http://www.heritage.org/index/country.cfm?id=Macedonia>

<sup>20</sup> Heritage Foundation: Index of Economic Freedom, 2007 "Macedonia" <http://www.heritage.org/index/country.cfm?id=Macedonia>

- **Unemployment and “Brain Drain”:** One of the factors that makes Macedonia attractive is its young and competitive workforce. With a significant unemployment rate, the country is facing a “brain drain” with many in the labor force leaving the country in pursuit of employment abroad.

**Acknowledgements:**

***Research and Data Development Provided by: Monica Wojcik, Research Assistant***